EXHIBIT E

Hedge Funds Bracing for Likely Disclosure Mandates; New administration, volatility increase odds for regulation.

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Body

Hedge funds, dealing with the demands of a growing institutional investor base and the specter of regulatory oversight, are increasingly performing a balancing act: Release sufficient information to capture investors' dollars without revealing valuable strategies and methodologies.

Transparency will be subject to greater regulation under the incoming administration of President-elect Barack Obama, according to 77 percent of hedge fund managers in a survey conducted last month by accounting firm Rothstein Kass. But even defining transparency, which is often used as a catch-all term synonymous with disclosure, has become controversial.

"Hedge funds now provide many of the same services as banks but are not regulated and face no limits or capital adequacy requirements," said Andrew Lo, director of the Massachusetts Institute of Technology's Laboratory for Financial Engineering, at a House Oversight Committee hearing on hedge fund regulation. "There is an economic free for all. There is no mechanism for transparency."

At the Nov. 13 hearing, hedge fund luminaries such as George Soros lent their support to stricter rules designed to increase transparency. Even the sole dissenter, Citadel Investment Group CEO Kenneth Griffin, acknowledged that he would not be opposed to some form of improved disclosure. For an industry with a history of intense and vocal opposition to regulation, the testimony at the hearing may indicate a sea change. "All of us are calling for more transparency," said Lo.

Still, hedge fund managers are not eager to share detailed positions. Investors, however, want enough information to understand the key risk drivers. "The most underappreciated risk to a hedge fund is the impact of the investor's perception," said David Koenig, founder of research firm Ductilibility and former chairman of the Professional Risk Managers International Association, at a conference last month sponsored by Financial Research Associates (FRA). "Transparency improves the ductility and resilience of a fund, which increases its perceived value to the investor."

Death of Innovation

Ian Morley, chairman of Corazon Capital, a hedge fund manager in London, took a dimmer view of the merits of transparency at the New York conference. "A hedge fund can give you complete liquidity and transparency and end up being second-rate," he said. "The flow of too much information will lead to the death of innovation and stymie alpha."

Hedge fund selling has been widely credited as a factor in the extreme volatility that shook the financial markets in October. Of the $100 billion decline in the value of hedge fund assets that month, investor redemptions accounted for $60 billion, according to Eurekahedge, a Singapore-based research firm. At the end of the third quarter, assets under management stood at about $1.7 trillion, down from $1.93 trillion the previous quarter, according to Hedge Fund Research.

Currently, institutional investment managers, fund-of-funds managers and corporate risk managers use an array of proprietary and third-party analytical packages to evaluate how fund managers are performing. But their success in doing so hinges in large part on how much information the hedge funds provide.

Most hedge fund managers supply investors with data such as Sharpe ratios, standard deviation of returns, value at risk (VAR) and leverage, as well as limited position details. Yet such information does not provide an understanding of market risk. VAR, for one, can be misleading, say risk management experts, because the measurement only highlights the probability that a fraction of funds will be lost at any given time under certain market conditions. Not to mention the lack of a uniform methodology for calculating VAR.

Michael Levas, founder and chief investment officer of Fort Lauderdale, Fla.-based Olympian Partners, a long-short equity hedge fund launched last year, said his firm provides some high-level disclosure of its holdings by industry sector to institutional investors. He has also on occasion released the names of a few companies he invests in-but there are limitations. "Additional risk analytics and comparable peer group analysis will be provided to clients upon request," said Levas. "We won't provide a detailed list of holdings except to regulators."

Secret Sauce

"For many hedge funds, proprietary trading strategies-as reflected by their specific securities positions-are the secret sauce that allows them to generate above-market returns and attract investors," noted Scott Meyers, director of the hedge fund and investment management practice at Chicago-based law firm Levenfeld Pearlstein. "Disclosing this confidential information to the public at large would be like disclosing the formula for Coke."

Revealing position data to counterparties and the market at large could hurt both the manager and investor, added Meyers, because others could trade against the information, potentially causing substantial losses. However, he said, the Securities and Exchange Commission could ultimately require that fund managers share more information about their traded positions to the agency, which could monitor the funds through a dedicated unit. "Regulators are more concerned about systemic risk and fraud, whereas investors want to know more about the risk of their individual portfolios, which hedge funds don't want to disclose," said Meyers. "Hedge funds aren't necessarily against the SEC's knowing the information, but they are worried about how it might be used by the public."

K. Daniel Libby, portfolio manager of Select Access Funds, a fund of hedge funds operated by Greenwich, Conn.-based Sands Brothers Asset Management, disputes the contention that more position-level disclosure is necessarily better. "Increased transparency won't always help investors make the best decisions," said Libby. "It requires well-informed and experienced investors to understand what the figures mean."

Counting on past returns to measure risk is not a foolproof method for forecasting future viability, particularly for new fund managers with short track records. "Rather than selecting a fund manager based on past performance, we need to be satisfied that the fund understands and knows how to capitalize on the thematic, macroeconomic theses we're hiring it for," said Rachel Minard, president of fund of funds manager Cogo Wolf Asset Management in San Francisco. "Transparency has become a clichA[c] given its various definitions."

Robyn McAllen

According to Minard, the hedge fund manager bears the onus of articulating how it generates alpha and the inherent risks associated. "Transparency is the evidence to justify and support that requirement."

Robert Miller, CEO of Hauppauge, N.Y.-based CorrectNet, which offers a managed service for client reporting, said it is unlikely the SEC will mandate greater disclosure of positions or even risk analytics, but the agency might require additional information on operational controls and counterparty risk. "This doesn't mean the hedge fund manager has to make public the intricacies of the fund's investment strategies," said Miller, "but that operational control environment must be robust enough to withstand proper scrutiny."

Investors are not only asking hedge fund managers to identify their third-party service providers-prime brokers, hedge fund administrators and valuation agents-but also provide updates on the financial stability of the providers during the course of their investment. That analysis would offer greater insight into counterparty risk, an industry priority given recent events.

Investors are also pressing fund managers for information on the methodologies they use for net asset valuations, pricing of exotic financial instruments and risk metrics, said Miller, adding that many client reports contain inaccurate information. Miller asserted that a reporting service such as CorrectNet's, which aggregates from multiple sources and provides an audit trail of raw data, can help reduce mistakes and allow investors to keep better tabs on their fund managers.

Carol E. Curtis contributed to this report.

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